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United Nations reform: measures and proposals

Revolving Credit Fund

Report of the Secretary-General

I. Introduction

1. Notwithstanding the legal obligation of Member States to pay their assessed contributions in full, on time and without conditions, and a major effort by many Member States to meet those obligations, the United Nations has experienced recurrent financial crises due to a large and growing volume of arrears of payments. This has resulted in the depletion of the Organization's financial reserves and has obliged the Secretary-General to borrow from peacekeeping accounts to meet regular budget requirements. This practice, which may cease to be possible as the level of peacekeeping activities and the related assessments decline, has led to serious delays in the payment of reimbursements to troop and equipment providers. The resulting precarious financial situation of the Organization also diverts attention from its substantive work and undermines efforts at reform. Only a real commitment by Member States to meet their obligations fully will overcome the financial problems of the Organization and, in his report entitled "Renewing the United Nations: a programme for reform" (A/51/950, paras. 220-222), the Secretary-General has challenged Member States to put forward ideas to induce delinquent Member States to pay and restore the financial solvency of the Organization.

2. In the absence of adequate capital and reserves, the Secretary-General has indicated that it is essential to find immediate practical measures to complement the ongoing search for a more fundamental solution of the financial problems of the United Nations. In his report he proposed:

> "...that Member States establish a Revolving Credit Fund, initially capitalized at a level of up to $1 billion through voluntary contributions or any other means of financing that Member States may wish to suggest. Such a fund would be used to finance, on a recourse basis, newly arising overdue assessment payments of Member States. Notwithstanding that acceptance of the budget through a General Assembly resolution confirms the treaty obligation of Member States, in practice delays in payment have frequently occurred. Accordingly, it is suggested that Member States that fall 90 days past due in meeting their assessment obligations be notified by the Secretariat that they are in arrears and asked to specify the future date of such payment. This notification should be in such legal form as will allow the Secretary-General to pledge it as security for borrowing at such time as he considers necessary from the Revolving Credit Fund. Reimbursement to the Fund would be made when Member States paid their arrears. Member States that have had their arrears financed through the Fund would bear the cost of such financing through adjustment of amounts owed to them by the Organization for prior year surpluses not yet reimbursed. The surplus balances of Member States that have provided the voluntary contributions would receive offsetting credit adjustments. The suggested financing

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arrangements would not modify in any way the determination of amounts in arrears for the purposes of Article 19 of the Charter." (para. 221).

3. The present report elaborates the Secretary-General's proposals with respect to the Revolving Credit Fund and spells out some of the practical aspects of its implementation.

II. Revolving Credit Fund

Establishment of the Revolving Credit Fund

4. Establishment of the Revolving Credit Fund would constitute a major addition to the financial arrangements set out in the Financial Regulations and Rules of the United Nations. Accordingly, it would be necessary for the General Assembly to approve related amendments to the Financial Regulations. Suggested changes to the Financial Regulations relating to the establishment of the Fund are set out in annex 1.

Purpose of the Fund

5. The Revolving Credit Fund would be established, on an indefinite basis and at an initial level of up to $1 billion, through voluntary contributions from Member States or through such other means as the General Assembly might from time to time decide. The purpose of the Fund would be to relieve cash flow pressures on the Organization through temporary advances against unpaid assessed contributions. It would be available to the Secretary-General to finance, on a recourse basis, any balances of unpaid assessed contributions of Member States arising after the establishment of the Fund, and in respect of which pledges to pay by a certain date have been made.

Advances from the Revolving Credit Fund

6. Financial regulation 5.4 provides that assessed contributions shall be considered as due and payable in full within 30 days of the receipt of the assessment or as of the first day of the calendar year to which they relate, whichever is the later. Under the procedures proposed for the Revolving Credit Fund, the Secretary-General would, consistent with the purpose of the Fund, notify Member States of any new balance of unpaid assessed contributions if an assessment is unpaid 90 days after becoming due. That notification would ask the Member States concerned to specify the future date of payment of the unpaid assessments in such a legal form as to allow the Secretary-General to pledge the Member State's notification in reply as security for an advance from the Fund (see annex II).

7. It should be observed that the notification from the Secretary-General to the Member State and the notification from the State in reply must indicate that the promise to pay by the date stated in the notification from the Member State is backed by the full faith and credit of that State. The Member State's notification would also acknowledge that the Government is aware that the State's share in the retained surpluses account will be reduced by the amount of interest lost by the utilization of the drawing by the Secretary-General from the Revolving Credit Fund to make up for the cash shortfall caused by the failure of the Member State to pay its assessed contribution in a timely manner. The notifications would also make clear that there is no question of the Organization attempting to enforce the pledge through legal action, as this would require that the Government waive its sovereign immunity from suit and from execution.

8. Upon receipt of a reply in the indicated sense from a Member State so notified, the Secretary-General could authorize an advance from the Revolving Credit Fund up to the amount of the unpaid assessed contributions in question. Such an advance would not constitute payment of the assessment in question and would not affect the application of Article 19 of the Charter to the Member State in question.

9. It should be emphasized that, pursuant to financial regulation 5.6, contributions received would still be applied against the oldest outstanding assessments. Advances from the Revolving Credit Fund would, however, be repaid as soon as the amount of the pledged unpaid contributions, or part thereof, was received in the appropriate account, until the total of the advance in respect of that State was repaid.

10. It will be recalled that the purpose of the Revolving Credit Fund would be to relieve cash flow pressures on the functioning of the United Nations. Accordingly, it is intended that the procedures outlined for the Fund would be used only in respect of substantial outstanding amounts, with a proposed lower limit of $250,000.

Income of the Revolving Credit Fund

11. Any cash balances in the Revolving Credit Fund would be invested and the income and capital gains or losses added to or substracted from the Fund. Initially, it is anticipated

that such investment would be short-term only but, depending on the position of the Fund, the Secretary-General could authorize longer-term investments, consistent with the liquidity requirements of the Fund. In that event, he would seek the advice of the Investments Committee. The administrative costs of the Fund would be chargeable against income in the normal way.

III. Authorized retained surpluses

12. The Secretary-General's proposal envisaged that Member States against whose unpaid contributions advances had been made would bear the opportunity cost of financing advances from the Revolving Credit Fund (i.e., they would bear the "cost" of the interest lost by drawing against the Fund) through a debiting of any amounts owed to them by the Organization for prior year surpluses not yet credited to their future assessments, up to the full amount of their share of such surpluses. The surplus balances of Member States providing voluntary contributions to the Fund would receive corresponding credit adjustments. The size of the credit would be calculated by reference to the proportion of each State's contribution to the Fund as measured at the end of the prior year.

13. Correspondingly, while income from the balance of the Revolving Credit Fund will be retained in the Fund, it is proposed that, when the financial situation of the Organization has improved sufficiently to handle the normal delays in payments of assessed contributions through the Working Capital Fund, the principal of all contributions will be returned to the donors together with the proportionate share of accrued interest earned by the Revolving Credit Fund. The changes to the Financial Regulations needed to implement this proposal and that in paragraph 12 are set out in annex I.

14. At 31 December 1996, retained surpluses* stood at just over $200 million as follows:

	Dollars
General Fund	68,356,000
United Nations Disengagement Observer Force (UNDOF)	49,609,000
United Nations Interim Force in Lebanon (UNIFIL)	82,878,000

It may also be noted that the Secretary-General has recommended that any balances under the regular budget that are unspent at the end of the fiscal period be retained in the future.

15. In order to simplify the operation of the mechanism proposed in this respect for the Revolving Credit Fund, it is proposed that authorized retained surpluses be consolidated in a retained surpluses account.

16. As regards the determination of the shares of Member States in the authorized retained surpluses, it is proposed that, consistent with the established practice for the regular budget, current regular budget and peacekeeping scales should be applied to the currently retained surpluses, in this instance the rates applicable in 1997 when the proposal for the Revolving Credit Fund was submitted (see annex III). Should any surpluses be added in the future, they could be allocated among Member States using scales of assessment then in force.

17. It is proposed that the lost interest on drawings against the Revolving Credit Fund be recouped by negative adjustments to the shares in retained surpluses of Member States against whose pledges contributions to the Fund have been made, up to the full amount of the share of such States in such surpluses. These would be based on the amount and period of advances from the Fund against unpaid assessed contributions of each Member State concerned and the return that would have been available on cash balances in the Fund, i.e., the opportunity cost of making such advances. Corresponding positive adjustments would be made for Member States contributing to the Fund (see para. 12 above).

IV. Action required

18. The General Assembly may wish:

(a) To establish a Revolving Credit Fund with the purposes and procedures outlined in the present report of the Secretary-General;

(b) To approve the related revisions to the Financial Regulations and Rules of the United Nations;

* It should be noted that, pursuant to General Assembly resolutions 3049 C (XXVII) and 36/116 A, amounts totalling $84.151 million are retained in special accounts for unpaid contributions

(c) To authorize the Secretary-General to consolidate authorized retained surpluses in a retained surpluses account;

(d) To take note of the shares of Member States in currently authorized retained surpluses, as set out in the present report, and decide that the shares of Member States in future retained surpluses will be allocated according to the effective scales of assessment in force for the budget year in question.

Annex I

Suggested amendments to the Financial Regulations and Rules of the United Nations

Revolving Credit Fund

Regulation [6.4 bis]:

(a) There is established a Revolving Credit Fund to be used to relieve cash flow pressures caused by overdue assessed contributions. The Fund shall be financed from voluntary contributions from Member States or through such other means as the General Assembly may from time to time decide. The Fund shall not exceed US$1 billion in total voluntary contributions.

(b) An advance from the Revolving Credit Fund may be made by the Secretary-General to the General Fund on a temporary basis if the amount of such advance is covered by a written notification of payment by a certain date executed by a Member State or States in arrears, in the form specified by the Secretary-General.

(c) The Secretary-General will return advances to the Revolving Credit Fund as soon as a payment pursuant to a pledge is received by the Organization.

(d) The Secretary-General may invest funds in the Revolving Credit Fund in accordance with regulations 9.1 and 9.2. Income, capital gains or losses and any associated expenses will be credited or debited to the Revolving Credit Fund as received.

(e) When the Revolving Credit Fund is wound up, the capital will be returned to the donors, together with accrued interest, in proportion to the amount and date of their contributions to the Fund.

(f) Negative adjustments will be made annually to the shares in the retained surpluses account of each Member State in respect of whose arrears advances have been made from the Revolving Credit Fund. These adjustments will reflect interest foregone on the amount of such advances and may be made up to the full amount of that Member's share in the retained surpluses account. Corresponding positive adjustments will be made annually to the shares in the retained surpluses account of Member States which have contributed to the Revolving Credit Fund, as measured at the end of the prior financial period.

Annex II

Draft written notifications of payment

A. Written notification from the Secretary-General

The Secretary-General has the honour to draw to the attention of [addressee] that the assessed contribution(s) of [the Member State] to the regular budget of the United Nations [and name of peacekeeping mission or tribunal] for [financial period] of US$--------- has (have) not yet been paid [in full]. As a result, the total amount that is 90 days or more in arrears from your Government for the above-mentioned assessed contribution(s) is now $----.

The Secretary-General would appreciate it if your Government could indicate the date upon which the assessed contribution(s) will be paid and could pledge, upon the full faith and credit of the State, to pay all or a stated amoun by that date. Such a written notification, backed by the full faith and credit of [the Member State], of payment by the date specified, and in the amount specified, will enable the Secretary-General to alleviate the cash flow problem caused by the arrearage in payment of assessed contributions by a temporary drawing against the Revolving Credit Fund, using the pledge to pay by the stated date contained in the written notification of payment by your Government as security for that temporary drawing. Upon receipt of payment of the promised assessed contribution from your Government, that payment (up to the amount of the advance drawn) will be transferred into the Revolving Credit Fund to liquidate the advance.

The Secretary-General notes that any drawing of funds from the Revolving Credit Fund entails a loss of interest to the Fund during the period of the drawing. That loss of interest will be charged periodically to the share of [the Member State] in the retained surpluses account, to the extent of that share.

Your Government is asked to confirm, in its notification in reply, that its pledge on its full faith and credit will constitute a binding commitment on [the Member State] to make the payment indicated in its notification by the date stated therein. It is understood that there is no question of enforcement of the pledge through legal action.

If your Government is prepared to make such a pledge, a notification substantially in the form attached should be sent to the Secretary-General.

B. Written notification of payment from the Member State

The Government of ---------- refers to the notification of the Secretary-General dated -------- that the assessed contribution(s) of [the Member State] is (are) 90 days or more in arrears in the amount of US$---------- as at [date].

The Government is pleased to advise the Secretary-General that, on the full faith and credit of [the Member State], it pledges that it will pay $---------- by [date]. The Government acknowledges that this written notification of payment may be used by the Secretary-General to alleviate the cash flow problem caused by its arrearage in payment of assessed contributions by making a temporary drawing against the Revolving Credit Fund to the extent of part or all of its pledge.

The Government acknowledges that the pledge contained in this notification, in reply to the notification of the Secretary-General, constitutes under the laws of [the Member State] a binding commitment, that the Secretary-General may use this notification to make a

drawing against the Revolving Credit Fund, and that the loss of interest for the Fund on the amount of such a drawing, from the date of the drawing until the date that the Government makes the promised payment, will be charged to the share of [the Member State] in the retained surpluses account.

Annex III

Indicative allocation of existing retained surpluses[a]

(United States dollars)

Member State	*Share of surplus*		*Total share*
	General Fund	*UNDOF and UNIFIL*	
Afghanistan	6 835	1 326	8 161
Albania	6 835	2 652	9 487
Algeria	109 359	42 425	151 784
Andorra	6 835	13 258	20 093
Angola	6 835	1 326	8 161
Antigua and Barbuda	6 835	1 326	8 161
Argentina	328 076	127 276	455 352
Armenia	34 174	13 258	47 432
Australia	1 011 567	1 962 181	2 973 748
Austria	594 638	1 153 444	1 748 082
Azerbaijan	75 184	29 167	104 351
Bahamas	13 670	5 303	18 973
Bahrain	13 670	5 303	18 973
Bangladesh	6 835	1 326	8 161
Barbados	6 835	2 652	9 487
Belarus	191 378	185 611	376 989
Belgium	690 326	1 339 056	2 029 382
Belize	6 835	1 326	8 161
Benin	6 835	1 326	8 161
Bhutan	6 835	1 326	8 161
Bolivia	6 835	2 652	9 487
Bosnia and Herzegovina	6 835	2 652	9 487
Botswana	6 835	1 326	8 161
Brazil	1 107 256	429 558	1 536 814
Brunei Darussalam	13 670	5 303	18 973
Bulgaria	54 679	21 213	75 892
Burkina Faso	6 835	1 326	8 161
Burundi	6 835	1 326	8 161
Cambodia	6 835	2 652	9 487
Cameroon	6 835	2 652	9 487
Canada	2 125 659	4 123 232	6 248 891
Cape Verde	6 835	1 326	8 161

Member State	Share of surplus		Total share
	General Fund	UNDOF and UNIFIL	
Central African Republic	6 835	1 326	8 161
Chad	6 835	1 326	8 161
Chile	54 679	21 213	75 892
China	505 784	1 210 301	1 716 085
Colombia	68 349	26 516	94 865
Comoros	6 835	1 326	8 161
Congo	6 835	2 652	9 487
Costa Rica	6 835	2 652	9 487
Côte d'Ivoire	6 835	2 652	9 487
Croatia	61 514	23 864	85 378
Cuba	34 174	13 258	47 432
Cyprus	20 505	7 955	28 460
Czech Republic	170 873	331 449	502 322
Democratic People's Republic of Korea	34 174	13 258	47 432
Democratic Republic of the Congo	6 835	2 652	9 487
Denmark	492 114	954 575	1 446 689
Djibouti	6 835	1 326	8 161
Dominica	6 835	1 326	8 161
Dominican Republic	6 835	2 652	9 487
Ecuador	13 670	5 303	18 973
Egypt	54 679	21 213	75 892
El Salvador	6 835	2 652	9 487
Equatorial Guinea	6 835	1 326	8 161
Eritrea	6 835	1 326	8 161
Estonia	27 340	10 606	37 946
Ethiopia	6 835	1 326	8 161
Fiji	6 835	2 652	9 487
Finland	423 765	821 995	1 245 760
France	4 388 016	10 500 182	14 888 198
Gabon	6 835	2 652	9 487
Gambia	6 835	1 326	8 161
Georgia	75 184	29 167	104 351
Germany	6 192 434	12 011 730	18 204 164
Ghana	6 835	2 652	9 487
Greece	259 727	277 092	536 819
Grenada	6 835	1 326	8 161

Member State	Share of surplus		Total share
	General Fund	UNDOF and UNIFIL	
Guatemala	13 670	5 303	18 973
Guinea	6 835	1 326	8 161
Guinea-Bissau	6 835	1 326	8 161
Guyana	6 835	2 652	9 487
Haiti	6 835	1 326	8 161
Honduras	6 835	2 652	9 487
Hungary	95 689	37 122	132 811
Iceland	20 505	39 774	60 279
India	211 882	82 199	294 081
Indonesia	95 689	37 122	132 811
Iran (Islamic Republic of)	307 571	119 322	426 893
Iraq	95 689	37 122	132 811
Ireland	143 533	278 418	421 951
Israel	184 543	71 593	256 136
Italy	3 588 331	6 960 440	10 548 771
Jamaica	o 835	2 652	9 487
Japan	10 696 644	20 748 739	31 445 383
Jordan	6 835	2 652	9 487
Kazakhstan	129 863	50 380	180 243
Kenya	6 835	2 652	9 487
Kuwait	129 863	50 380	180 243
Kyrgyzstan	20 505	7 955	28 460
Lao People's Democratic Republic	6 835	1 326	8 161
Latvia	54 679	21 213	75 892
Lebanon	6 835	2 652	9 487
Lesotho	6 835	1 326	8 161
Liberia	6 835	2 652	9 487
Libyan Arab Jamahiriya	136 698	53 032	189 730
Liechtenstein	6 835	13 258	20 093
Lithuania	54 679	21 213	75 892
Luxembourg	47 844	92 806	140 650
Madagascar	6 835	1 326	8 161
Malawi	6 835	1 326	8 161
Malaysia	95 689	37 122	132 811
Maldives	6 835	1 326	8 161
Mali	6 835	1 326	8 161

Member State	Share of surplus		Total share
	General Fund	UNDOF and UNIFIL	
Malta	6 835	2 652	9 487
Marshall Islands	6 835	2 652	9 487
Mauritania	6 835	1 326	8 161
Mauritius	6 835	2 652	9 487
Mexico	539 958	209 476	749 434
Micronesia (Federated States of)	6 835	2 652	9 487
Monaco	6 835	13 258	20 093
Mongolia	6 835	2 652	9 487
Morocco	20 505	7 955	28 460
Mozambique	6 835	1 326	8 161
Myanmar	6 835	1 326	8 161
Namibia	6 835	1 326	8 161
Nepal	6 835	1 326	8 161
Netherlands	1 086 752	2 108 019	3 194 771
New Zealand	164 038	318 192	482 230
Nicaragua	6 835	2 652	9 487
Niger	6 835	1 326	8 161
Nigeria	75 184	29 167	104 351
Norway	382 755	742 447	1 125 202
Oman	27 340	10 606	37 946
Pakistan	41 009	15 909	56 918
Palau	6 835	1 326	8 161
Panama	6 835	2 652	9 487
Papua New Guinea	6 835	1 326	8 161
Paraguay	6 835	2 652	9 487
Peru	41 009	15 909	56 918
Philippines	41 009	15 909	56 918
Poland	225 552	87 502	313 054
Portugal	191 378	259 856	451 234
Qatar	27 340	10 606	37 946
Republic of Korea	560 463	217 431	777 894
Republic of Moldova	54 679	21 213	75 892
Romania	102 524	39 774	142 298
Russian Federation	2 918 509	6 983 766	9 902 275
Rwanda	6 835	1 326	8 161
Saint Kitts and Nevis	6 835	1 326	8 161

Member State	*Share of surplus*		*Total share*
	General Fund	*UNDOF and UNIFIL*	
Saint Lucia	6 835	1 326	8 161
Saint Vincent and the Grenadines	6 835	1 326	8 161
Samoa	6 835	1 326	8 161
San Marino	6 835	13 258	20 093
Sao Tome and Principe	6 835	1 326	8 161
Saudi Arabia	485 279	188 263	673 542
Senegal	6 835	1 326	8 161
Seychelles	6 835	1 326	8 161
Sierra Leone	6 835	1 326	8 161
Singapore	95 689	37 122	132 811
Slovakia	54 679		54 679
Slovenia	47 844	18 561	66 405
Solomon Islands	6 835	1 326	8 161
Somalia	6 835	1 326	8 161
South Africa	218 717	424 255	642 972
Spain	1 626 710	3 155 399	4 782 109
Sri Lanka	6 835	2 652	9 487
Sudan	6 835	1 326	8 161
Suriname	6 835	1 326	8 161
Swaziland	6 835	2 652	9 487
Sweden	840 695	1 630 732	2 471 427
Syrian Arab Republic	34 174	13 258	47 432
Tajikistan	13 670	5 303	18 973
Thailand	88 854	34 470	123 324
The former Yugoslav Republic of Macedonia	6 835	2 652	9 487
Togo	6 835	1 326	8 161
Trinidad and Tobago	20 505	7 955	28 460
Tunisia	20 505	7 955	28 460
Turkey	259 727	100 760	360 487
Turkmenistan	20 505	7 955	28 460
Uganda	6 835	1 326	8 161
Ukraine	745 006	1 268 788	2 013 794
United Arab Emirates	129 863	50 380	180 243
United Kingdom of Great Britain and Northern Ireland	3 636 175	8 701 085	12 337 260
United Republic of Tanzania	6 835	1 326	8 161

Member State	*Share of surplus*		*Total share*
	General Fund	*UNDOF and UNIFIL*	
United States of America	17 087 291	40 888 558	57 975 849
Uruguay	27 340	10 606	37 946
Uzbekistan	88 854	34 470	123 324
Vanuatu	6 835	1 326	8 161
Venezuela	225 552	87 502	313 054
Viet Nam	6 835	2 652	9 487
Yemen	6 835	1 326	8 161
Yugoslavia	68 349	26 516	94 865
Zambia	6 835	1 326	8 161
Zimbabwe	6 835	1 326	8 161
Total	**68 356 000**	**132 487 000**	**200 843 000**

[a] Based on effective rates of assessment for 1997.